Testimony of Betty C. Alewine
President and CEO
COMSAT Corporation

COMSAT Corporation ("COMSAT") appreciates very much the opportunity to appear before the Subcommittee on Communications of the Committee on Commerce, Science and Transportation to present its views on S. 2365, the "International Satellite Communications Reform Act of 1998." We would like to commend the Subcommittee for recognizing the need for international satellite reforms, and particularly Chairman Burns for his leadership in crafting balanced legislation to guide the Senate's deliberative process.

My remarks today will focus on the importance of a pro-competitive privatization of the international satellite treaty organizations. While these restructurings are already well underway, the U.S. Congress can take a major leadership role among nations by adopting legislation to reinforce the multilateral approach that has proven successful in this context, and by establishing a framework to ensure a pro-competitive outcome. This is a far superior means for going forward than unilateral sanctions and threats of U.S. market closure. Legislating precise terms, conditions and timetables that leave no room for other member nations of these organizations to have their issues addressed would be a grave mistake at this juncture in the privatization process, and could jeopardize much of what has been achieved to date.

We would also like to address much needed reforms to the 1962 Satellite Act, and the importance of establishing regulatory parity for all U.S. providers of satellite services as embodied in S. 2365. Given the extremely competitive market for international telecommunication services that exists today, obsolete regulations

can be eliminated and the long sought "level playing field" finally attained. Before discussing these two important legislative issues, however, we would like to briefly provide the Subcommittee with some background on COMSAT and the state of competition that exists in the satellite industry of 1998.

COMSAT and the Satellite Act of 1962

COMSAT was created pursuant to the Communications Satellite Act of 1962 as a private, shareholder-owned, U.S. corporation -- without any government ownership, subsidies, or financial guarantees. The company today is owned by approximately 36,000 shareholders who hold 53 million shares of stock traded on the New York Stock Exchange. While the COMSAT name is well known, it is a relatively small company among current providers of international telecommunications services. According to the latest FCC statistics, 1996 aggregate revenue for U.S. providers of international communications services was about $18 billion, while COMSAT's revenue from its satellite services businesses was less than $500 million, or about 3% of total industry revenues. In fact, COMSAT is surpassed in size by most of its U.S. international service competitors, which include AT&T, MCI/WorldCom, Sprint, Hughes/PanAmSat, and Loral/Orion.

COMSAT was established to carry out the national policy of creating a global satellite communications system to link the nations of the free world and, in the process, assure U.S. leadership in space technology. The results of those efforts are the two intergovernmental satellite organizations that exist today -- the 143-nation INTELSAT, and the 84-nation Inmarsat. Few could dispute that COMSAT's efforts in fulfilling its Congressional directives to establish these two global satellite systems have been successful on an historic scale.

Among other things, INTELSAT and Inmarsat provide space segment capacity used to create universal service connectivity for public telecommunications, and offer vital global maritime distress and safety services ("GMDSS") on the high seas, respectively. The U.S. portion of the space segment on these systems, which is paid for and owned by COMSAT, is utilized by the U.S. Government for both defense and civilian purposes. These satellite systems also enable American businesses to serve global markets and manage global enterprises, and COMSAT carries traffic to foreign locations that do not generate sufficient volume for international carriers to construct undersea cable facilities. In addition, the launch vehicles and satellites purchased from U.S. manufacturers by these two satellite organizations have supported thousands of U.S. high-technology jobs, and contributed billions of dollars to the U.S. economy. In short, COMSAT's implementation of the national policy objectives embodied in the 1962 Satellite Act has provided enormous economic, technological and foreign policy benefits for the United States.

Another vital part of COMSAT is COMSAT Labs, one of the premier U.S. facilities for satellite industry research and development. Hundreds of patents have been issued for satellite technology which are the direct result of the company's commitment to R&D. Those innovations not only helped bring the satellite industry into being, but continue to ensure that satellites play a critical role in today's global information infrastructure. For example, because of technology developed at COMSAT Labs, satellites can now transmit high speed digital data streams with the same quality as terrestrial media -- and with equal or greater reliability. Thus, COMSAT has been and continues to be one of the true pioneers of the information age.

As Senator Burns pointed out in introducing S. 2365, "we have succeeded magnificently" in pursuing the objectives of the 1962 Satellite Act. To quote further, "the 1962 Act has paid the United States enormous dividends, to the point where the policy framework established by Congress in 1962 has been eclipsed by the success of these ventures, and by the development of healthy marketplace competition." Put another way, while COMSAT is proud of its heritage and the successes it has achieved in fulfilling the purposes of 1962 Satellite Act, we fully agree that the healthy competition that exists in this industry, and the ever evolving demands of consumers, now dictate a fundamentally new direction for these two satellite organizations. Let me elaborate on the forces now driving what COMSAT believes to be the best public policy -- the full and rapid, pro-competitive privatization of INTELSAT and Inmarsat, through a multilateral process, that recognizes the continued need for universal service and mobile distress and safety services in a competitive marketplace.

The State of Competition

As the international telecommunications industry has evolved, so too has the marketplace. When COMSAT launched its first satellite in 1965, it was the sole U.S. provider of international satellite communications services. Those days are long gone. In November 1984, President Reagan signed a Presidential Determination which opened the market for international satellite communications to competitive entry. Since then, a vibrant U.S. satellite industry has developed, with strong facilities-based rivals like Hughes/PanAmSat, Loral/Orion, Columbia Communications and GE Americom -- all competing with COMSAT in the provision of international transmission capacity to and from the U.S.

The transition of the U.S. international satellite industry from its monopoly

foundation to today's highly competitive structure is a remarkable success story. A recent article in the August 1998 edition of Via Satellite captures the current state of competition quite well:

> "The United States is home to many of the world's leading private global satellite operators. The Hughes/PanAmSat merger has created by far the largest of such companies. GE Americom and Loral Skynet are expanding beyond their traditional U.S. market into Europe, Latin America and the Asia Pacific. These companies are building fleets that rival INTELSAT's in size, at the same time that INTELSAT is losing market share and spinning off five of its spacecraft in a new private venture."

The facts underlying this assessment are even more revealing. For instance, from a single satellite launched in 1988, the Hughes/PanAmSat system is in the midst of a $2 billion expansion program to increase its fleet to 24 satellites by the end of 1999, with the company scheduled to launch a satellite *every two months* between now and then. PanAmSat has a backlog of $7 billion in firm contract orders, and had $756 million in revenue last year. In April 1998, the FCC found that "PanAmSat's and Hughes' satellites have captured 70 percent of the growth in international video traffic to and from the U.S.," and that "PanAmSat provides full-time video service to 139 countries." That, of course, is only four countries shy of the entire INTELSAT membership.

In contrast, the INTELSAT fleet will be reduced in size from 24 to 19 satellites before the end of 1998. And for purposes of comparison, it is important to keep in mind that COMSAT is not INTELSAT. COMSAT must share capacity on INTELSAT satellites with many other Signatory owners. As a result, the total capacity available to COMSAT to serve its customers amounts to the equivalent of 4 - 5 satellites. Moreover, COMSAT's backlog of firm contract orders is seven times less than PanAmSat (about $900 million), and COMSAT's 1997 revenue from the INTELSAT business was $263 million. Given these facts, it is difficult

to understand the claims of Hughes/PanAmSat and others that COMSAT has unfair advantages that are harmful to competition, or that Hughes/PanAmSat suffers from foreign market access problems. If anything, the facts demonstrate conclusively that the unique obligations imposed on COMSAT by the 1962 Satellite Act and FCC regulation have limited COMSAT's ability to participate in the growth of this industry.

There also should be no doubt that today's satellite industry competition is not limited to the Hughes/PanAmSat success story. Loral is another example of a powerful U.S. firm competing to offer international satellite services. With its $1.5 billion acquisition of AT&T's Skynet satellites, the Orion system, and a majority ownership interest in the Mexican Satmex satellites, Loral will have 10 geostationary satellites in orbit this year and is planning to expand its fleet to 15 - 17 satellites by 2001. In addition, with satellite firms like GE Americom, Teleglobe, and Columbia Communications also vying to carry voice, video and data traffic between the U.S. and overseas destinations, competition is obviously thriving in this industry. Satellite capacity, however, is only part of the market for international telecommunications services available to consumers today.

During the same time period that satellite competition was growing, advancements in technology created alternatives to satellites that were unforeseen. Specifically, beginning in 1988, the deployment of undersea fiber optic cables began, and those cables are now the dominant transmission medium for consumers of international telephone and data services. In fact, from a single cable to the U.K. in 1988, the United States now has direct fiber connections to nearly 120 countries, and these undersea cable systems continue to expand. The CTR Group, Ltd. is currently undertaking a cable project, for example, that will have 265 landing points in 175 countries and cost $14 billion. Another firm, Global

Crossing, Ltd., has raised $3 billion already, and is laying fiber links from North America to Japan, Central America and the Caribbean.

The capacity of fiber-optic cables is breathtaking. TAT-1, the first trans-Atlantic cable, built from twisted copper pairs and activated in 1956, had the capacity to provide only 44 voice-grade circuits. TAT-12/13, a digital fiber optic cable which commenced service in 1996, has the capacity to transmit 120,000 simultaneous voice conversations (or an equivalent amount of data). That cable alone is 2 1/2 times the capacity of the largest INTELSAT satellite. In fact, due largely to undersea fiber cables, there is more than enough *unutilized* capacity to absorb all of COMSAT's current traffic. And advancements in technology continue to increase fiber cable capacity at an astonishing rate. The initial installed capacity on Global Crossing Ltd.'s first transatlantic cable can handle more than 480,000 simultaneous two-way conversations.

Competition from separate satellite systems and from fiber optic cables has changed the competitive landscape for international transmission services beyond recognition. In every market segment that COMSAT serves via INTELSAT, the FCC has found that COMSAT's shares in the markets for international transmission capacity have dropped dramatically. COMSAT's share of the international switched voice and private line market has fallen from approximately 70% in 1987 to approximately 20% today, and even to as low as 12% in the most heavily trafficked geographic and service markets.

COMSAT's shares in the international video transmission market have declined more quickly, from nearly 80% in 1993 to approximately 35% today. Even for service to "thin route" countries (that is, where INTELSAT may remain the sole service provider), COMSAT itself faces competition in providing the U.S.

portion of the international circuit. For example, the FCC found that INTELSAT services are currently being provided to U.S. carriers and broadcasters from the Canadian participant in INTELSAT, Teleglobe Canada. Significantly, Teleglobe also recently entered into an agreement to merge with the 5th largest U.S. long distance carrier, Excel Communications. That merger was valued at $7 billion and will create a global, integrated service provider with access to 240 countries. Moreover, Teleglobe is the world's third largest owner of fiber optic cable capacity. This combination further increases the competition faced by COMSAT.

Competition to INTELSAT and COMSAT is about to intensify still further with satellites launched into a whole new orbital arc, the Ka-band. The FCC recently authorized thirteen Ka-band systems, comprising some 73 satellites, which will offer a variety of data and multimedia applications. Firms planning to provide these satellite services include GE Americom, Hughes, Lockheed Martin, Loral and Motorola/Teledesic. According to the FCC, these new entrants should enable worldwide revenues from commercial fixed and mobile satellites to grow from the 1996 level of $9.4 billion to $37.7 billion in the year 2002.

Beyond these systems, COMSAT and INTELSAT are also facing enormous competition from the multi-billion dollar global telecom alliances that are rapidly taking shape. Among those are: AT&T/BT, MCI/Worldcom, Global One (Sprint/France Telecom/Deutsche Telecom), Cable & Wireless/MCI Internet and Teleglobe/Excel. All of these global telecom firms significantly dwarf COMSAT in both size and scope.

Turning to competition to Inmarsat and COMSAT's mobile satellite operations, the trends are similar. To begin with, COMSAT faces enormous, intrasystem competition from other Inmarsat Signatories. In every ocean region

covered by an Inmarsat satellite, users can choose among numerous land earth station operators to complete their calls, depending on price and quality. COMSAT is just one of those choices. For the Inmarsat satellites covering the Atlantic Ocean Region, for instance, users have nearly twenty providers competing with COMSAT to carry this traffic. And the market for these mobile-originated maritime, aeronautical and land mobile communications services comprise over 70% of the traffic on the Inmarsat system. COMSAT's primary competitors in this area include British Telecom, France Telecom, KDD, Stratos, Telenor and Telstra, to name just a few. COMSAT's overall global market share for basic voice mobile-originated satellite services carried over the system is about 15%.

Facilities-based alternatives to the Inmarsat satellite system are also now operating on a regional and global basis and this intersystem competition is growing rapidly. Examples of competitive regional mobile satellite systems separate from Inmarsat and COMSAT include: American Mobile Satellite Corporation (serving North and Central America), TMI (Canada), MobileSat (Australia/New Zealand), and N-Star (Japan).

With respect to global mobile satellite firms, Iridium, the first low-earth orbit ("LEO") system, has nearly completed the deployment of its entire 66 satellite fleet and plans to aggressively address the market for mobile voice communications services with its handheld satellite phone system. Iridum expects to commence commercial service on September 23, 1998. Significantly, on the issue of foreign market access, the Chairman of Iridium also stated in February 1998, that "we have not encountered any opposition from any country."

A second LEO, Globalstar, has already launched a portion of its fleet, and is slated to begin its competitive services early next year. ICO, a U.K.-licensed

LEO system, is not far behind in the handheld satellite voice services race. Two other "Big LEO" firms were recently granted licenses by the FCC. They are Ellipso, the 17 satellite system of Mobile Communications, Holding, Inc., ("MCHI") and ECCO, the 46 satellite system of Constellation Communications, Inc.

These companies, along with "Little LEOs" like Orbcomm, Final Analysis and Leo One, have attracted billions of dollars in domestic and foreign investment, and will compete vigorously in the markets for global mobile satellite communications services. Orbcomm, for example, plans to have 20 satellites of a planned 28 satellite system in service by the end of this month, which will nearly double the narrowband data and messaging service capabilities this satellite system currently offers. Of course, those mobile satellite systems also face increasing competition from the traditional cellular system operations that are now being interconnected on a worldwide basis, like the AT&T/Vodaphone and GTE/Deutsche Telecom alliances.

Privatization and Regulatory Parity

Given the emergence of this intense competition, COMSAT realized several years ago that INTELSAT and Inmarsat could not continue to operate as international treaty organizations. Their governance and financial structures simply are not suitable for the new highly competitive environment. Conflicting interests among the Signatory-owner members of both organizations have made basic business decisions difficult to attain in a timely way, and the ability to move quickly in new markets has suffered. As a result, COMSAT in 1993 began to advocate the full privatization of INTELSAT and Inmarsat -- with the hope of transforming both intergovernmental organizations into private, commercial enterprises that could respond more quickly and effectively to customer needs.

Since then, COMSAT has worked closely with the U.S. Government to achieve these pro-competitive privatizations, and tremendous progress has been made. Last March, the INTELSAT Assembly of Parties agreed to the divestiture of five of INTELSAT's satellites, and to transfer them to a new private company incorporated in the Netherlands, New Skies Satellites N.V. With guidance from the Antitrust Division of the Department of Justice and other U.S. economic agencies, New Skies was created in a way to ensure its independence from INTELSAT. New Skies also has no privileges and immunities, and the member governments of INTELSAT agreed as part of this restructuring to offer non-discriminatory market access to all satellite system providers. Significant further progress has been made as the initial Board members for New Skies have been elected, a commercial CEO has been appointed, and the actual transfer of assets is expected by October 1, 1998, with an IPO to follow by year-end 1999.

Looking beyond New Skies, a new INTELSAT Director General has been elected on a platform calling for the near-term privatization of INTELSAT itself. INTELSAT's Board of Governors will review proposals later this month, and full privatization could be completed in 2001. Meanwhile, the Inmarsat Assembly of Parties agreed in August to privatize all of its commercial operations in 1999. This is a tremendous achievement in the advancement of U.S. policy interests within these international organizations.

Similarly, COMSAT realized during this time that its continued treatment by the FCC under a regulatory regime meant for a monopoly era impeded its ability to be an effective participant in this dynamic industry. Until recently, the company was subject to essentially the same public-utility style regulation that had been in place since the 1960s. Clearly, FCC regulation of COMSAT had to be

brought into conformity with the competitive realities that exist in today's market. And in April of this year, in a unanimous 5-0 decision, the Commission ruled that COMSAT is no longer a "dominant" carrier in its major service markets, thereby freeing the company to compete on a more equal footing with other telecommunications and satellite operators. The FCC decision explicitly recognizes that COMSAT is *not* a monopoly, but rather a single competitor in an industry characterized by *substantial, facilities-based* competition.

It is for these reasons that COMSAT agrees fully that reform of the 1962 Satellite Act is sorely needed to bring this nation's laws into alignment with current realities, and to guide the industry into the 21st Century. One key principle of S. 2365, with which COMSAT concurs, is that the time has now arrived for regulatory parity, and that legislation should not be used to give any class of competitors an advantage in the marketplace. At last, the proverbial "level playing field" with minimal government regulation can be achieved.

For example, although a number of users of satellite services (such as teleport operators) have expressed a desire to this Subcommittee to be given the same rights with respect to all satellite systems, only *COMSAT is required to offer all users non-discriminatory access to its space segment*. Extending this same common carrier obligation to all providers of satellite services is a pro-competitive reform that enjoys strong user support. This concept of competitively neutral regulation -- like treatment of like services -- is also well-known to Congress and to this Subcommittee. For example, in 1993 Congress amended Section 332 of the Communications Act to provide for like treatment of commercial mobile radio services.

In sum, over the past few years, the U.S. Government and COMSAT have worked together and have achieved great momentum in building an international,

multilateral consensus to achieve the pro-competitive privatizations INTELSAT and Inmarsat, as well as the partial deregulation of the U.S. satellite industry. These achievements are impressive, especially considering the opposition of COMSAT's competitors. They would prefer the status quo -- that is, to keep COMSAT, INTELSAT and Inmarsat wrapped-up in an outmoded intergovernmental structure, subject to heavy economic regulation and unable to compete efficiently and effectively. Consistent with that strategy, it is therefore not surprising that they advocate legislation that would eject INTELSAT and Inmarsat from key markets, require COMSAT contracts to be abrogated, mandate the give-back of Inmarsat spectrum for redistribution to competitors, and seek to have INTELSAT broken-up -- all while billions of dollars are being invested into the expansion of their own systems.

COMSAT, however, believes it has have much to offer as a full and active participant in this industry, and can succeed on the merits. Let us not forget, COMSAT is itself urging the elimination of its special U.S. signatory role as quickly as possible via these privatizations. All we ask for is an opportunity to conduct business the old fashioned way, on the basis of technical innovation, service quality, price and customer responsiveness. This is exactly what an evolving, competitive marketplace needs.

By the same token, backsliding on regulatory parity would be a terrible mistake -- especially if it were misleadingly dressed up as an effort to spur privatization of INTELSAT and Inmarsat. One misguided approach promoted by some competitors is to use discriminatory regulatory criteria to atomize INTELSAT and punish firms with which it has previously done business. This approach is not only unfair but totally unnecessary, as there is no inconsistency at all between the two goals of privatization and regulatory parity. More specifically,

to promote a pro-competitive privatization of INTELSAT and Inmarsat, there is no need for Congress to depart in any respect from the principle of equal treatment under law for all providers of satellite telecommunication services.

The Need for New Legislation

One thing is clear: the world that existed when Congress passed the 1962 Communications Satellite Act is gone. The question is no longer whether a competitive environment can be achieved. It is here now, as correctly reflected in the findings of S. 2365. The issue before this Subcommittee is the need to adopt a new statutory framework to reflect these realities, and to ensure the maintenance of full and fair competition as the industry moves forward. COMSAT commends this Subcommittee for making this update a legislative priority.

One rather simple but critical step is for the U.S. Congress to announce formally its support for privatization of INTELSAT and Inmarsat. While these restructurings are well underway, there are political and substantive reasons for the U.S. Congress to be heard by other nations on the value of continuing with a multilateral approach to privatization. There needs to be Congressional reinforcement of what has proven to be a successful means forward -- not unilateral threats and sanctions based on the false assumption that privatization is not desired nor forthcoming.

Nor does it make much sense to restrict the service choices available to U.S. consumers by COMSAT, an American company, if a foreign nation suggests a privatization plan that may differ on some detail. S. 2365 avoids this, and takes the sound and productive approach of guiding the appropriate agencies of the U.S. Government to continue to pursue the privatization of both INTELSAT and

Inmarsat, but within a well-defined, pro-competitive framework of objectives which “reflect the economic realities of the competitive global environment.”

A second reason for making S. 2365 a legislative priority is to repeal obsolete provisions of the 1962 Satellite Act. Specifically, it is no longer necessary for the FCC to oversee COMSAT's financing activities to ensure that it can meet its obligations to INTELSAT and Inmarsat. No other satellite company must first ask the FCC for permission to raise debt and equity in the capital markets or have its ratio of debt to equity regulated. While the Satellite Act provision mandating such oversight may have been necessary when the industry was in its infancy and the financial risks in launching and operating a global system were unknown, it is obsolete in an era of a mature industry subject to vigorous competition.

Similarly, it is no longer valid to limit individual share ownership in COMSAT to 10% of the voting shares of the corporation. Again, none of COMSAT’s satellite competitors operate under such restrictions, and this particular provision hamstrings COMSAT's ability to raise capital, or otherwise strategically participate in the global alliances and partnerships that fill the competitive landscape today.

The third need for legislation is to inform the FCC that comparable communications services shall receive comparable regulatory treatment. Efforts to promote competition in this industry will be effective only if providers of similar services are accorded similar treatment. S. 2365 recognizes this imperative and promises to decrease the role of government in the international communications marketplace. It would set suppliers free to meet the needs of their customers without overburdensome or skewed regulatory intervention, ensuring that

outcomes are determined by customer choice rather than legal regimes.

S. 2365 responds to these three needs -- supporting privatization, repealing statutory deadwood, and championing equal treatment of all competitors -- while also preserving universal service and safeguarding the ability of American users of telecommunications services to reach virtually any country on the globe. This is important for all users of our services, but particularly so for the U.S. Government and for developing nations.

COMSAT further supports S. 2365 for striking the right balance in several other areas. First, the bill leaves intact existing contractual arrangements won by COMSAT in a fully competitive market, thereby recognizing the important Constitutional principle of protecting private property rights and settled expectations. In contrast, the House bill, H.R. 1872, contains an immensely punitive and unconstitutional application of the so-called "fresh look" doctrine, which would allow a party to walk away from its contracts with COMSAT -- contracts upon which COMSAT relied to purchase space segment capacity from INTELSAT on a long-term basis to serve its customers. Significantly, both the FCC and a federal court have reviewed these very contracts against claims by competitors that they are anti-competitive, and those claims have been firmly rejected.

Second, the Senate bill respects the international obligations of the United States by providing that the rules in the World Trade Organization Agreement on Basic Telecommunications shall govern the licensing of new commercial entities that may come before the FCC during and after the privatization process. In contrast, H.R. 1872 contains a WTO-inconsistent standard designed to punish license applicants solely on the basis that they were once related to, or did

business with, INTELSAT and Inmarsat.

Third, the Senate bill avoids imposing anti-competitive service restrictions on the users of COMSAT's satellite facilities. In contrast, H.R. 1872 seeks to limit the way COMSAT serves its customers. Those restrictions operate to reduce consumer choice, raise prices, and literally force existing traffic away from one supplier to its competitors -- irrespective of quality, price or reliability considerations central to a competitive market. See M. Schwartz, "Why H.R. 1872 is Anti-Competitive", August 1998 (attached). Many of the satellite network advancements and new services developed by COMSAT Labs in recent years, for example, could well fall within the service restrictions of H.R. 1872. The real losers, of course, would be the consumers that would be deprived of these new and advanced services.

In a few areas, COMSAT respectfully submits that S. 2365 does require some modifications. For example, the bill's proposed section 603 adopts a "direct access" policy which would permit U.S. carriers and broadcasters to obtain space segment capacity directly from INTELSAT under certain conditions. Given the significant level of facilities-based choices that exist today, COMSAT obviously must price its space segment competitively, otherwise consumers are free to go elsewhere. That is why claims that COMSAT adds a 68% mark-up to its space segment charges were characterized as "misleading" by an Administration cost analysis on this issue, provided to the House Commerce Committee in January 1998. COMSAT's actual operating profit margins are about 38 percent.

In any event, the FCC has twice examined this issue, and found that direct access will not lower prices or increase competition. And those conclusions were reached even before facilities-based satellite alternatives were available to U.S.

consumers. Congress can rest assured that the intense competition that exists in today's market will discipline prices. And direct access will not increase facilities-based competition because it simply substitutes one firm -- COMSAT -- for another -- INTELSAT -- in the supply of INTELSAT space segment.

As for service to thin routes (which constitutes less than 10 percent of COMSAT's business), the FCC has initiated a proceeding to rate regulate those offerings, and to ensure that COMSAT's thin route users obtain the same benefits of price competition realized by users on the thick routes. Yet, even in those markets, COMSAT is not the only choice for U.S. carriers or broadcasters seeking services over the INTELSAT network. As noted previously, Teleglobe, the Canadian Signatory to INTELSAT, has obtained FCC authority to operate in the U.S., thus giving users an alternative to COMSAT for thin route service.

Beyond this, what is the logic of seeking to address legislatively an issue related to the current, exclusive Signatory-ownership structure of INTELSAT and Inmarsat when that structure is in the process of being jettisoned altogether. As the definition of direct access in Section 15(15) of S.2365 recognizes, measures will have to be adopted by the FCC to allow COMSAT to recover all the costs it incurs as the U.S. Signatory, but which INTELSAT's direct access policies do not recognize. By the time the FCC completes a rulemaking proceeding to address that problem, the privatized Inmarsat will offer direct access, and the INTELSAT privatization should be nearing completion. In short, "direct access" has little if any consumer benefits, is likely to harm competition in the transition to privatization, will necessitate a costly new regulatory regime, and will be a short-lived "solution" to the signatory structure that is being dismantled. For these reasons, COMSAT urges that this provision be deleted.

A second problematic provision is Section 4(d)(2) of the bill, directing the President to consider withdrawing the United States from INTELSAT or Inmarsat if privatizations have not been achieved by January 1, 2003. Since both privatizations are on track, threatening withdrawal in this manner is not necessary. But, more importantly, it is counterproductive because it creates a powerful incentive for Inmarsat's and INTELSAT's competitors to attempt to slow the privatization process. If the delaying tactics are successful, and the United States in fact withdraws, these competitors will have achieved the expulsion of a major competitor from the U.S. market. Ironically, the U.S. also will deprive itself of a voice in these privatizations if withdrawal occurs. Congress should not pursue incentives to delay or derail the privatizations of the ISOs, or weaken competition in general.

On balance, S. 2365 is true to the principles of full and fair competition in the international telecommunications marketplace -- a competitively neutral regulatory system, the maintenance of universal service and GMDSS, and a framework for an orderly transition to a pro-competitive privatization of INTELSAT and Inmarsat on a multilateral basis. This is the best bill currently before Congress on the subject. COMSAT stands ready to work with the Subcommittee to pass such legislation. If successful, Congress will have created a sound policy framework for the next era in satellite telecommunications, and a firm foundation for the privatizations the United States is seeking to achieve.

On behalf of COMSAT, I appreciate the opportunity to submit these comments for the Subcommittee's deliberations.